

**CITY OF WINDCREST
ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Windcrest, Texas)**

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016**

Prepared by:

The Finance Department



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
City of Windcrest Economic Development Corporation
Windcrest, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the City of Windcrest Economic Development Corporation (the "Corporation"), a component unit of the City of Windcrest, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the City of Windcrest Economic Development Corporation as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information for the general fund on pages 4 – 8 and 22, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2017, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, LLP

Waco, Texas
May 25, 2017

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**CITY OF WINDCREST
ECONOMIC DEVELOPMENT CORPORATION**

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the City of Windcrest Economic Development Corporation (the "Corporation"), a component unit of the City of Windcrest, Texas (the "City"), provides an overview of the Corporation's financial activity for the fiscal year ended September 30, 2016. It should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The Corporation's liabilities exceeded its assets by \$33,993 (net position) at September 30, 2016. The Corporation commonly constructs capital assets that are transferred to the City upon completion. The deficit net position will eventually be eliminated by sales taxes collected in future years.
- The Corporation's total revenues were \$572,133, while total expenses were \$194,456, thereby increasing the Corporation's net position by \$407,677.
- The Corporation reported an ending fund balance of \$411,751, an increase of \$299,028.

USING THIS ANNUAL FINANCIAL REPORT

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements, which are comprised of three parts – government-wide financial statements, fund financial statements, and notes to the financial statements. In addition to the basic financial statements, required supplementary information is also presented.

Government-Wide Financial Statements - The government-wide statements are designed to provide readers with a broad overview of the Corporation's finances in a manner similar to private-sector companies.

The *statement of net position* presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Corporation's financial condition is improving or deteriorating.

The *statement of activities* presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected sales taxes).

Both the government-wide financial statements include functions of the Corporation that are principally supported by sales tax revenues (governmental activities). The government-wide financial statements can be found on pages 9 – 10.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. The only fund of the Corporation is considered a governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available for current spending, as well as on balances of resources available for spending at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

As mentioned above, the Corporation maintains one governmental fund, the general fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and change in fund balance. The basic governmental fund financial statements can be found on pages 11 – 14 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 – 21 of this report.

Required Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The Corporation adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on page 22 – 23 of this report.

Statement of Net Position

Table 1 shows all assets and liabilities of the Corporation and is presented on the accrual basis of accounting.

TABLE 1
WINDCREST ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET POSITION

| | 2016 | 2015 |
|--|-------------|--------------|
| ASSETS | | |
| Cash | \$ 480,538 | \$ 189,196 |
| Taxes receivable | 91,933 | 116,918 |
| Capital assets (net of accumulated depreciation) | 1,284 | - |
| Total assets | 573,755 | 306,114 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 1,252 | 16,351 |
| Interest payable | 2,613 | - |
| Due to City of Windcrest | 145,000 | 145,000 |
| Due to other governments | 14,468 | 32,040 |
| Noncurrent liabilities: | | |
| Due within one year | 132,406 | 118,717 |
| Due in more than one year | 312,009 | 435,676 |
| Total liabilities | 607,748 | 747,784 |
| NET POSITION | | |
| Investment in capital assets | 1,284 | - |
| Restricted for economic development | (35,277) | (441,670) |
| | \$(33,993) | \$(441,670) |

The Corporation's liabilities exceeded its assets by \$33,993 (net position) at September 30, 2016. The Corporation regularly constructs capital assets that are transferred to the City upon completion. The deficit net position will eventually be eliminated by sales taxes collected in future years.

Statement of Activities

Table 2 shows all revenues and expenses of the Corporation and is also presented on the accrual basis of accounting. General revenues consist primarily of the ¼ cent sales tax the Corporation receives for economic development. The total cost of all projects and services was \$194,456.

TABLE 2
WINDCREST ECONOMIC DEVELOPMENT CORPORATION
CHANGES IN NET POSITON

| | <u>2016</u> | <u>2015</u> |
|---------------------------------|----------------------|-----------------------|
| REVENUES | | |
| Sales taxes | \$ 571,747 | \$ 476,705 |
| Interest income | 386 | 271 |
| Other | <u>30,000</u> | <u>577</u> |
| Total revenues | <u>602,133</u> | <u>477,553</u> |
| EXPENSES | | |
| Economic development | 176,492 | 280,785 |
| Interest | <u>17,964</u> | <u>18,254</u> |
| Total expenses | <u>194,456</u> | <u>299,039</u> |
| CHANGES IN NET POSITION | <u>407,677</u> | <u>178,514</u> |
| NET POSITION - BEGINNING | (<u>441,670</u>) | (<u>620,184</u>) |
| NET POSITION - ENDING | <u>\$ (33,993)</u> | <u>\$ (441,670)</u> |

Total revenues increased \$124,580 from the prior year, primarily due to a \$95,042 increase in sales taxes. Expenses decreased \$104,583 from the prior year. This resulted in an increase of \$407,677 in net position.

FINANCIAL ANALYSIS OF THE GENERAL FUND

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General fund – The focus of the Corporation’s general fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Corporation’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the close of the current year, the Corporation’s general fund reported an ending fund balance of \$411,751, an increase of \$299,028 from the prior year.

BUDGETARY HIGHLIGHTS

At the end of the current fiscal year, actual revenues were \$99,636 more than budgetary estimates and actual expenditures were less than budgetary estimates by \$184,513. As a result, fund balance increased \$284,149 more than the final amended budgeted increase.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The Corporation’s net investment in capital assets for its governmental activities as of September 30, 2016 amounted to \$1,284 (net of accumulated depreciation). Please refer to Note III. C. as presented in the notes to the financial statements for more detailed information on the Corporation’s capital asset activity.

Long Term Debt – At the end of the current fiscal year, the Corporation had total debt outstanding of \$444,415. More detailed information about the Corporation’s long-term liabilities is presented in Note III. D. of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

Presently, the Board of Directors is not aware of any significant changes in conditions that would have a significant effect on the financial position or activities of the Corporation in the near future.

CONTACTING THE CORPORATION’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Corporation’s finances and to show the Corporation’s accountability to its taxpayers. If you have any questions about this report or need additional financial information, contact the City’s finance office.

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**BASIC
FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL
STATEMENTS**

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CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Windcrest, Texas)

STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Governmental Activities |
|--------------------------------|----------------------------|
| ASSETS | |
| Cash | \$ 480,538 |
| Taxes receivable | 91,933 |
| Capital assets: | |
| Buildings and improvements | 3,350 |
| Less: accumulated depreciation | (2,066) |
| Total assets | 573,755 |
| LIABILITIES | |
| Accounts payable | 1,252 |
| Interest payable | 2,613 |
| Due to the City of Windcrest | 145,000 |
| Due to other governments | 14,468 |
| Noncurrent liabilities: | |
| Due within one year | 132,406 |
| Due in more than one year | 312,009 |
| Total liabilities | 607,748 |
| NET POSITION | |
| Investment in capital assets | 1,284 |
| Unrestricted | (35,277) |
| Total net position | \$(33,993) |

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CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Windcrest, Texas)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| Functions/Programs | Expenses | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---------------------------------|------------|--|--|
| | | | Governmental Activities |
| GOVERNMENTAL ACTIVITIES: | | | |
| Economic development | \$ 176,492 | \$ 30,000 | \$(146,492) |
| Interest | 17,964 | - | (17,964) |
| Total governmental activities | \$ 194,456 | \$ 30,000 | (164,456) |
| General revenues: | | | |
| Sales taxes | | | 571,747 |
| Interest income | | | 386 |
| Total general revenues | | | 572,133 |
| Change in net position | | | 407,677 |
| Net position - beginning | | | (441,670) |
| Net position - ending | | | \$(33,993) |

The accompanying notes are an integral part of these financial statements.

**CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Windcrest, Texas)**

BALANCE SHEET

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>General Fund</u> |
|------------------------------------|-------------------------|
| ASSETS | |
| Cash | \$ 480,538 |
| Taxes receivable | 91,933 |
| Total assets | <u>\$ 572,471</u> |
| LIABILITIES | |
| Accounts payable | \$ 1,252 |
| Due to the City of Windcrest | 145,000 |
| Due to other governments | 14,468 |
| Total liabilities | <u>160,720</u> |
| FUND BALANCES | |
| Restricted: | |
| Economic development | <u>411,751</u> |
| Total liabilities and fund balance | <u>\$ 572,471</u> |

CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Windcrest, Texas)
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Total fund balances - governmental funds balance sheet \$ 411,751

Amounts reported for governmental activities in the statement of net position are different because:

1,284

Capital assets (net of accumulated depreciation) used in governmental funds are not financial resources and, therefore, are not reported in the funds.

Long-term liabilities, including bonds payable (net of unamortized costs), are not due and payable in the current period and, therefore, are not reported in the funds. (447,028)

Net position of governmental activities - statement of net position \$ (33,993)

**CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Windcrest, Texas)
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| REVENUES | <u>General Fund</u> |
|---|-------------------------|
| Sales taxes | \$ 571,747 |
| Investment earnings | 386 |
| Miscellaneous | <u>30,000</u> |
| Total revenues | <u>602,133</u> |
| EXPENDITURES | |
| Current: | |
| Economic development | 177,776 |
| Debt service: | |
| Principal | 109,978 |
| Interest | <u>15,351</u> |
| Total expenditures | <u>303,105</u> |
| Excess (deficiency) of revenues over (under) expenditures | 299,028 |
| Fund balance - October 1 (beginning) | <u>112,723</u> |
| Fund balance - September 30 (ending) | <u>\$ 411,751</u> |

The accompanying notes are an integral part of these financial statements.

**CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Windcrest, Texas)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | | |
|--|----|----------------|
| Net change in fund balances - total governmental funds | \$ | 299,028 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Depreciation on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expenditures in the governmental funds. | (| 670) |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position. | | 1,954 |
| The issuance of long-term debt (e.g., bonds, notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This reconciling item represents the net effect of these differences in the treatment of long-term debt and related items. | | |
| Repayment of principal of long-term debt | | 109,978 |
| Accrual of interest payable | (| <u>2,613</u>) |
| Change in net position of governmental activities - statement of activities | \$ | <u>407,677</u> |

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**CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A component unit of the City of Windcrest, Texas)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The City of Windcrest Economic Development Corporation (the "Corporation") is a nonprofit industrial corporation, with powers of taxation, created pursuant to Section 4B Article 5190.6 of Vernon's Texas Civil Statutes as amended. The Corporation was created on September 25, 1998, to act on behalf of the City of Windcrest (the "City") for the promotion, development and enhancement of economic development within the City.

The Corporation is considered to be a governmental entity for the purpose of applying accounting and financial reporting standards. Therefore, its basic financial statements are prepared in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The Corporation is a component unit of the City. Accordingly, it is included in the City's financial statements as a discretely presented component unit. The reasons for meeting this criteria follow:

- The Board of Directors is comprised of seven (7) members, appointed by City Council.
- The Board has control over and management supervision of all affairs of the Corporation under the guidance and direction of City Council.
- The City Council approves the Corporation's programs and expenditures.
- A financial benefit/ burden exists.

The Corporation itself does not have any component units.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Corporation's activities. Governmental activities include programs primarily supported by sales taxes.

Net position is segregated into net investment in capital assets; restricted net position; and, unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues, if any. Direct expenses are those that are clearly identifiable with a specific function. However, all of the Corporation's activities and programs are funded by general revenues (i.e. sales taxes).

The governmental fund financial statements provide reports on the financial condition and results of operations for the Corporation's general fund, which is its only fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and expenditures).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the Corporation considers all revenues available if they are collectible within sixty (60) days after year end. Expenditures generally are recorded in the accounting period in which the fund liability is incurred, if measurable. However, debt service expenditures are recorded only when payment is due.

Sales tax revenue is recognized under the susceptible to accrual concept since it is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Interest income is recorded as earned, since it is both measurable and available.

D. Fund Accounting

The Corporation reports the general fund as its only fund and it is considered to be a major fund. The general fund is the Corporation's primary operating fund that is used to account for all financial resources. Major revenue sources include sales taxes. Expenditures include all costs associated with the daily operations of the Corporation.

E. Other Accounting Policies

1. Cash

The Corporation's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Capital Assets

Capital assets, which include construction in progress, buildings and improvements, vehicles furniture and equipment, and improvements other than buildings, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Building Improvements | 5 - 50 |
| Improvements Other than Buildings | 20 - 50 |
| Vehicles | 3 - 10 |
| Furniture and Equipment | 3 - 10 |

3. Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as non-current liabilities in the Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued, if any, is reported as other financing sources.

4. Fund Balance

The Corporation uses the following criteria when classifying fund balance amounts:

Nonspendable – amounts that are not in spendable form or are required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. At September 30, 2016, the Corporation had \$411,751 in restricted fund balance.

Committed – amounts that require Board action to be used for a specific purpose. Formal action to commit funds must occur prior to fiscal year end and can only be modified or removed by the same formal action.

Assigned – amounts that do not require Board approval but are intended to be used for a specific purpose, as determined by an official or body to which the Board has delegated authority. These amounts do not meet the criteria to be classified as restricted or committed.

Unassigned – residual amount of the general fund that is available to finance operating expenditures.

5. Net Position Flow Assumption

Sometimes the Corporation will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Corporation's policy to consider restricted - net position to have been depleted before unrestricted – net position is applied.

6. Fund Balance Flow Assumptions

Sometimes the Corporation will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Corporation's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. Sales Tax

The City's sales tax is currently levied at 2.00% of which .25% is allocated to the Corporation. The sales tax is used for the promotion and development of new and expanded business enterprises. During the year, the Corporation recognized \$571,747 in sales taxes.

8. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. BUDGETARY INFORMATION

The Board of Directors adopts an annual operating budget for the Corporation, which is approved by the City Council. Formal budgetary accounting is employed as a management control. The original adopted and final amended budget for revenues and expenditures and a comparison of the actual revenues and expenditures in the accompanying financial statements to the final amended budgeted amount is presented as required supplementary information. The budget can be amended by the Board of Directors, subject to City Council approval. During the year ended September 30, 2016, total expenditures were \$184,513 less than budgeted expenditures.

III. DETAILED NOTES

A. Cash

At September 30, 2016, cash is comprised of \$480,538 in demand accounts.

Custodial Credit Risk – Deposits. This is the risk that, in the event of a bank failure, the Corporation may not be able to recover deposits. At September 30, 2016, the deposits of \$480,538 were held in the City’s name and collateralized with pledged securities held in the name of the City. The Federal Reserve Bank is the safekeeping agent.

B. Taxes Receivable

At September 30, 2016, \$91,933 is due from the Texas Comptroller of Public Accounts for collected but unremitted sales taxes.

C. Capital Assets

Capital asset activity for the governmental activities for the year ended September 30, 2016, was as follows:

| | Balance 10/01/15 | Additions | Deletions | Balance 09/30/16 |
|---|---------------------|-----------------|------------------|---------------------|
| Capital Assets, Being Depreciated: | | | | |
| Buildings and Improvements | \$ 60,780 | \$ - | \$(57,430) | \$ 3,350 |
| Furniture and Equipment | 19,364 | - | (19,364) | - |
| Total capital assets being depreciated | <u>80,144</u> | <u>-</u> | <u>(76,794)</u> | <u>3,350</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (60,780) | (670) | 59,384 | (2,066) |
| Furniture and Equipment | (19,364) | - | 19,364 | - |
| Total accumulated depreciation | <u>(80,144)</u> | <u>(670)</u> | <u>78,748</u> | <u>(2,066)</u> |
| Total capital assets being depreciated, net | <u>-</u> | <u>(670)</u> | <u>1,954</u> | <u>1,284</u> |
| Governmental activities capital assets, net | <u>\$ -</u> | <u>\$(670)</u> | <u>\$ 1,954</u> | <u>\$ 1,284</u> |

Depreciation expense of governmental activities for the current year totaled \$670.

D. Loan Payable

During 2011, the Corporation obtained a Texas Leverage Fund (TLF) loan from the Office of the Governor Economic Development and Tourism Division in the amount of \$1,600,000 for the purpose of building a road for handling the increased employment traffic to the Rackspace location in the City. The interest rate is variable based on the federal fund's rate plus 3%; the federal fund's rate ranged from 0.00%-0.25%. The loan has a first lien on economic development sales tax receipts.

A summary of changes in the loan payable for the year ended September 30, 2016 follows:

| Description | Final Maturity | Interest Rate Payable | Amount Outstanding 10/1/2015 | Issued / Additions | Retired / Payments | Amount Outstanding 9/30/2016 | Due Within One Year |
|---------------------|-------------------|-----------------------------------|------------------------------------|-----------------------|-----------------------|------------------------------------|------------------------|
| TLF Loan Payable | 1/1/2020 | Federal Fund's Rate plus 3% | \$ 554,393 | \$ - | \$(109,978) | \$ 444,415 | \$ 132,406 |

Annual debt service requirements to maturity for the loan payable follows:

| Year Ending September 30, | Principal | Interest | Total Requirements |
|------------------------------|-------------------|------------------|-----------------------|
| 2017 | \$ 132,406 | \$ 12,328 | \$ 144,734 |
| 2018 | 126,678 | 8,282 | 134,960 |
| 2019 | 130,857 | 4,103 | 134,960 |
| 2020 | 54,474 | 415 | 54,889 |
| Total | <u>\$ 444,415</u> | <u>\$ 25,128</u> | <u>\$ 469,543</u> |

Interest expense for the current year totaled \$15,351.

E. Commitments

In 2007, the City of Windcrest and the Corporation entered into an agreement with the City of San Antonio, Texas, under which the City of San Antonio released an area from its jurisdiction and allowed for the City of Windcrest to accept and annex the area into the municipal limits of the City of Windcrest. The boundary change agreement provides for the sharing of future tax revenues on the annexed area for the next 30 years. Under the terms of the agreement, the City of San Antonio and the City of Windcrest each receive 50% of the local sales taxes due to the City of Windcrest and distributed by the State Comptroller for taxable business activity conducted on the annexed area.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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**CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Windcrest, Texas)**

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Sales taxes | \$ 378,098 | \$ 502,247 | \$ 571,747 | \$ 69,500 |
| Investment earnings | 249 | 250 | 386 | 136 |
| Miscellaneous | - | - | 30,000 | 30,000 |
| Total revenues | <u>378,347</u> | <u>502,497</u> | <u>602,133</u> | <u>99,636</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries and benefits | 2,752 | - | 6,468 | (6,468) |
| Economic development projects | 79,910 | 80,000 | 48,614 | 31,386 |
| Contracted services | 91,344 | 126,000 | 80,043 | 45,957 |
| Other | 129,753 | 146,658 | 42,651 | 104,007 |
| Debt service: | | | | |
| Principal retirement | 73,677 | 103,049 | 109,978 | (6,929) |
| Interest | 27,543 | 31,911 | 15,351 | 16,560 |
| Total expenditures | <u>404,979</u> | <u>487,618</u> | <u>303,105</u> | <u>184,513</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(26,632)</u> | <u>14,879</u> | <u>299,028</u> | <u>284,149</u> |
| FUND BALANCE, BEGINNING | <u>112,723</u> | <u>112,723</u> | <u>112,723</u> | <u>-</u> |
| FUND BALANCE, ENDING | <u>\$ 86,091</u> | <u>\$ 127,602</u> | <u>\$ 411,751</u> | <u>\$ 284,149</u> |

**CITY OF WINDCREST, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
(A component Unit of the City of Windcrest, Texas)**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Budgets

The Board of Directors adopts an annual operating budget for the Corporation, which is approved by the City Council. Formal budgetary accounting is employed as a management control. The original adopted and final amended budget for revenues and expenditures and a comparison of the actual revenues and expenditures in the accompanying financial statements to the final amended budgeted amount is presented as required supplementary information. The budget can be amended by the Board of Directors, subject to City Council approval. During the year ended September 30, 2016, total expenditures were \$184,513 less than budgeted expenditures.

GOVERNMENT AUDITING STANDARDS
REPORT

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PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
City of Windcrest Economic Development Corporation
Windcrest, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the City of Windcrest Economic Development Corporation (the "Corporation"), a component unit of the City of Windcrest, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated May 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, LLP

Waco, Texas
May 25, 2017

